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TAGS: EGEN, PFOR, GE

SUBJ: THE GDR ECONOMY: FIRST HALF 1976 PERFORMANCE

SUMMARY: GROWTH OF OUTPUT AND PRODUCTIVITY SLOWED marginally
IN EAST GERMANY IN THE FIRST HALF OF 1976, DAMPENING EXPANSION
OF THE CONSUMER ECONOMY. THE GDR IS APPARENTLY COPING
SUCCESSFULLY WITH BALANCE OF PAYMENTS PROBLEMS, POSSIBLY TO THE
DETIMENT OF THE DOMESTIC ECONOMY. THE SITUATION PRESENTS
PROBLEMS FOR THE LEADERSHIP, BUT WE DO NOT BELIEVE IT
AFFECTS DECISION MAKING ON IMPORTANT FOREIGN AFFAIRS
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ISSUES. END SUMMARY.

1. ANALYSIS OF DATA PUBLISHED BY THE GDR ON FIRST-HALF 1976 ECONOMIC PERFORMANCE REVEALS A MARGINAL SLOWDOWN IN THE GROWTH RATE OF THE ECONOMY AND SUGGESTS THAT THE GDR IS EXPERIENCING DIFFICULTY MEETING THE RELATIVELY MODEST GROWTH GOALS SET FOR 1976. THERE IS GENERAL AGREEMENT AMONG OUTSIDE OBSERVERS THAT THERE IS NO CRISIS IN THE OFFING IN THE GDR ECONOMY, BUT THAT THE CURRENT PLAN IS OFF TO A SLOW START THAT DROUGHT IS CERTAIN TO AGGRAVATE. IN ADDITION, LAGGING DEVELOPMENT OF "LABOR PRODUCTIVITY", MEASURED AS OUTPUT PER UNIT OF LABOR INPUT, CASTS SOME DOUBT ON THE ABILITY OF THE ECONOMY TO MEET LONG-TERM GROWTH TARGETS SET IN THE 1976-80 PLAN.

2. FIRST HALF GROWTH OF "PRODUCED NATIONAL INCOME" AT A 5 PERCENT ANNUAL RATE IS BELOW THE 1976 TARGET OF 5.3 PERCENT; AND THE POOR HARVEST COULD REDUCE THIS FIGURE STILL FURTHER IN THE SECOND HALF OF THE YEAR. INDUSTRIAL PRODUCTION GREW AT THE TARGETED 6 PERCENT ANNUAL RATE, WITH CHEMICAL INDUSTRY, ELECTRICAL AND ELECTRONICS, AND THE FUEL INDUSTRY LEADING, AND LIGHT INDUSTRY, TEXTILES, AND FOOD INDUSTRY GROWTH SHOWING DOWN AS PLANNED.

3. ASSESSING THESE RATES AND PER-WORKER PRODUCTIVITY, HOWEVER, OBSERVERS POINT OUT THAT THE PERIOD JANUARY-JUNE 1976 CONTAINED THREE MORE WORK DAYS THAN THE CORRESPONDING PERIOD A YEAR AGO. TWO AND ONE HALF PERCENT OF FIRST-HALF 1976 GROWTH IS THEREFORE ATTRIBUTABLE TO THE EXTRA DAYS WORKED AND RATES OF GROWTH OF NATIONAL INCOME AND INDUSTRIAL PRODUCTION ADJUSTED FOR THE LONGER PERIOD ARE ONLY 2.5 AND 3.5 PERCENT, RESPECTIVELY. THAT PRODUCTION AND, ESPECIALLY, PRODUCTIVITY ARE NOT DEVELOPING SATISFACTORILY IS SUGGESTED BY THE FACT THAT, DEPARTING FROM CUSTOM, GDR STATISTICAL AUTHORITIES FAILED TO PUBLISH FIGURES ON "PER-WORK-DAY" LABOR PRODUCTIVITY, CONFINING THEIR REPORT TO THE STATEMENT THAT LABOR PRODUCTIVITY GREW OVERALL BY 6.0 PERCENT DURING THE PERIOD.

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4. EFFORTS UNDERTAKEN IN ACCORD WITH EMPHASIS IN THE NEW FIVE-YEAR PLAN ON INCREASING INVESTMENT IN INDUSTRY ARE APPARENTLY MEETING WITH SUCCESS. INVESTMENT IN FIRST HALF 1976 WAS REPORTED UP 6.5 PERCENT OVERALL COMPARED WITH 4.0 PERCENT IN 1975, WITH PARTICULAR SUCCESS REPORTED IN RAISING INVESTMENT IN MINING, METALLURGY, POTASH, GLASS AND CERAMICS, AND TRANSPORT. THE GROWTH IN INVESTMENT OBVIOUSLY IMPLIES A REDUCTION IN THE QUAN-

TITY OF PRODUCT THAT WOULD OTHERWISE BE AVAILABLE FOR CONSUMPTION; AND IT APPEARS THAT HIGHER INVESTMENT, AND INCREASED EXPORTS, ARE BEGINNING TO IMPACT ON THE RATE OF INCREASE OF CONSUMPTION.

5. DATA GENERALLY TAKEN AS INDICES OF THE STANDARD OF LIVING SHOW CONTINUATION OF A TREND TOWARD A SLOWER EXPANSION OF THE CONSUMER ECONOMY THAT BEGAN TO BECOME EVIDENT IN 1975. THUS, EXPANSION OF RETAIL TRADE TURNOVER, AT 3.4 PERCENT, WAS SLIGHTLY BELOW THE 3.5 PERCENT ACHIEVED IN 1975 AND SIGNIFICANTLY BELOW THE 4.0 PERCENT ANNOUNCED AS THE 1976 TARGET FIGURE.

NET MONEY INCOME OF THE POPULATION GREW AT 3.0 PERCENT ANNUAL RATE, A FULL POINT BELOW THE 4.0 PERCENT PLANNED. NET INCOME OF WORKERS AND EMPLOYEES, HOWEVER, GREW 5.0 PERCENT. THE RELATIVELY LARGE PROPORTION OF THE POPULATION ON FIXED OLD-AGE PENSIONS THAT WILL NOT RISE UNTIL DECEMBER 1 OF THIS YEAR CLEARLY DRAGGED DOWN THE "NET MONEY INCOME" AVERAGE.

6. IN FOREIGN TRADE, IT APPEARS THAT AFTER A DIFFICULT 1975 PLUNGED THE GDR FROM COMFORTABLE SURPLUS INTO DEFICIT IN INTRA-CEMA TRADE, THE GDR IS BRINGING THIS TRADE BACK INTO BALANCE BY CUTTING IMPORTS AND RAISING EXPORTS AND THERE IS EVIDENCE THAT THE GDR HAS SUCCEEDED IN IMPROVING SOMEWHAT ITS TERMS OF TRADE WITH THE USSR. AT THE SAME TIME, THE GDR HAS MANAGED TO INCREASE DELIVERIES TO WEST GERMANY IN THE FIRST HALF OF 1976 BY 20 PERCENT WHILE HOLDING GROWTH IN IMPORTS TO NEAR ZERO, ACHIEVING APPROXIMATE BALANCE IN INNER-GERMAN TRADE IN THE PERIOD. EXPORTS TO THE WEST OVERALL ROSE 5 PERCENT; AND A TIGHT REIN IS BEING KEPT ON EXPANSION OF IMPORTS FROM WESTERN SOURCES. THIS IMPROVEMENT FROM YEAR-AGO LEVELS OF THE

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TRADE BALANCE IS BEING CARRIED OUT AT THE COST OF DOMESTIC AVAILABILITY OF BOTH CONSUMER AND PRODUCER GOODS, OUTPUT OF WHICH IS BEING AFFECTED ADVERSELY BY REDUCING RAW MATERIALS IMPORTS.

7. IMPORTS OF AGRICULTURAL COMMODITIES TO OFFSET DOMESTIC OUTPUT, ESPECIALLY ANIMAL FEED LOST TO DROUGHT, PROMISES TO PLACE AN ADDITIONAL BURDEN ON THE GDR BALANCE OF PAYMENTS. SUCCESS IN THE EFFORT TO IMPROVE THE TRADE BALANCE WILL, HOWEVER, PROBABLY IMPRESS WESTERN BANKERS SUFFICIENTLY TO KEEP OPEN PRIVATE CREDIT SOURCES TO WHICH THE GDR WILL BE TURNING TO SEE IT THROUGH ITS SECOND CONSECUTIVE POOR HARVEST.

8. OVERALL, THE ECONOMY PRESENTS A NUMBER OF PROBLEMS

FOR THE GDR LEADERSHIP, ONE OF WHICH IS COPING WITH THE EXPECTATIONS OF A POPULATION GROWN ACCUSTOMED TO A RELATIVELY CONSTANT AND RAPID RISE IN ITS STANDARD OF LIVING. WE DO NOT THINK, HOWEVER, THAT THE GDR POPULATION IS UNUSUALLY CONCERNED ABOUT THE AVAILABILITY OF CONSUMER GOODS; AND WE HAVE OBSERVED NO CHANGE IN THE AVAILABILITY OF FOOD AND MANUFACTURED GOODS, SUPPLIES OF WHICH APPEAR NORMAL. EAST GERMANS ARE, ON THE OTHER HAND, WELL INFORMED ABOUT CONDITIONS ELSEWHERE IN EASTERN EUROPE; AND THEY ARE WATCHING DEVELOPMENTS, E.G. IN POLAND, WITH MORE THAN CASUAL INTEREST.

9. IN FOREIGN AFFAIRS, UNCERTAINTY ABOUT THE ECONOMY WILL MAKE THE GDR CAUTIOUS, AND INCLINED TO AVOID GRATUITOUS ALIENATION OF ANY COUNTRY OFFERING THE POSSIBILITY OF CREDIT OF EXPORT OPPORTUNITIES. AT THE SAME TIME, THE ATTENUATION OF THE GDR GROWTH RATE IS MARGINAL, BARELY PERCEPTIBLE, IN FACT, IN COMPARISON WITH RECENT WESTERN EXPERIENCE. WE HAVE SEVERAL INDICATIONS FROM EASTERN SOURCES THAT THE GDR HAS WORKED OUT ARRANGEMENTS WITH THE USSR ON PRICES RECEIVED FOR EAST GERMAN EXPORTS THAT PROMISE TO IMPROVE SIGNIFICANTLY IN THE COURSE OF THE NEXT TWO YEARS THE GDR'S TERMS OF TRADE, WHICH DETERIORATED SHARPLY IN 1975. WE ARE INCLINED TO CREDIT THESE REPORTS AND BELIEVE THAT IF SUCH ARRANGEMENTS HAVE BEEN MADE WITH THE SOVIETS, THEY

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WILL BOLSTER GDR ECONOMIC CONFIDENCE. IF THE GDR IS, IN ADDITION, SUCCESSFUL IN ACCELERATING THE INVESTMENT RATE, THIS TOO WILL HELP THE ECONOMIC OUTLOOK AND SET THE STAGE FOR LATER INCREASES IN OUTPUT IF AND WHEN EXOGENOUS BURDENS ON THE ECONOMY ARE ELIMINATED. ON BALANCE, WE BELIEVE THAT CURRENT ECONOMIC DIFFICULTIES ARE SUCH AS TO CAUSE EAST GERMANY TO TRY TO AVOID A DETERIORATION OF RELATIONS WITH THE WEST INCLUDING THE FEDERAL REPUBLIC, AND WHERE POSSIBLE, TO PROMOTE THEIR IMPROVEMENT. AT THE SAME TIME, THESE DIFFICULTIES ARE NOT SO SEVERE AS TO AFFECT DECISION MAKING IN EAST BERLIN ON ISSUES OF POLITICAL IMPORTANCE.COOPER

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